



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Auditor-General of South Africa

eDumbe Municipality Audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on eDumbe Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the eDumbe municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the eDumbe Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. As disclosed in note 44 to the financial statements, the municipality is the defendant in nine lawsuits. The ultimate outcome of these matters was not determinable at year-end and no provision for any liability that may result was made in the financial statements.

Material losses and impairment provision

9. As disclosed in note 42 to the financial statements, material electricity distribution losses amounting to R9,1 million (2015: R8,56 million), and kilowatts of 6,7 million (2015:4,7 million) were incurred as a result of illegal connections, ageing infrastructure and technical losses.
10. As disclosed in note 4 to the financial statements, the municipality provided for impairment of receivables from exchange transactions amounting to R4,75 million (2015: R6,60 million) due to poor collection practices and history of debtor non-payment.

Going concern

11. As disclosed in note 45 to the financial statements, the municipality's current liabilities exceed its current assets by R22,97 million as at 30 June 2016. Consequently, the municipality is unable to pay its creditors as and when they become due. Conditional grants were not backed by cash and the liquidity ratio was also unfavourable. These conditions, along with other matters stated in the above-mentioned note indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern in the foreseeable future.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for the selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery and infrastructure development priority presented in the annual performance report of the municipality for the year ended 30 June 2016.
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priority are as follows:

Basic service delivery and infrastructure development priority

Usefulness of reported performance information

Measurability of indicators and targets

Performance targets not specific and measurable and indicators not well defined and verifiable

21. A total of 50% of targets were not specific and measurable. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable.

22. A total of 50% of the indicators were not verifiable. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI.
23. A total of 50% of the indicators were not well-defined due to the lack of proper systems and process for technical indicator descriptions. Performance indicators should be well-defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI.

Reliability of reported performance information

24. For 50% of the indicators, the reported achievements against planned targets were not reliable because I was unable to obtain sufficient appropriate audit evidence for these targets. In addition, the reported achievements against planned targets for 50% of the indicators were not reliable when compared to the evidence provided. The FMPPI requires municipalities to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets.

Additional matters

25. I draw attention to the following matters:

Achievement of planned targets

26. The annual performance report on pages x to x and x to x which includes information on the achievement of the planned targets for the year should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priority reported in paragraphs 21 to 24 of this report.

Unaudited supplementary schedules

27. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules, and accordingly, I do not report thereon.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

28. Key performance indicators (KPIs) in respect of each of the development priorities were not set out in the integrated development plan, as required by section 41(1)(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and the Municipal planning and performance management regulations (MPPMR) 1 and 9(1)(a).

29. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of electricity, as required by section 43(2) of the MSA and regulation 10(a) of the MPPMR.
30. Performance targets were not set for each of the KPIs for the financial year, as required by section 41(1)(b) of the MSA and regulations 12(1) and 12(2)(e) of the MPPMR.

Annual financial statements

31. The annual financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, property rates revenue, expenditure and disclosure identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

32. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of 17(a) and (c) of supply chain management (SCM) regulations.
33. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
34. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.
35. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential procurement regulations (PPR) of 2011, issued in terms of the PPPFA.
36. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of regulation 9 of the PPR.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Reasonable steps were not taken to prevent unauthorised, irregular, as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

39. The municipality's credit control and debt collection policy was not implemented effectively, as required by section 96(b) of the MSA and section 62(1)(f) (iii) of the MFMA.

Consequence management

40. Unauthorised, irregular as well as fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by sections 32(2)(a) and (b) of the MFMA.
41. Council certified unauthorised, irregular as well as fruitless and wasteful expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) and 32(2)(b) of the MFMA.

Internal control

42. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

43. Leadership did not adequately oversee that effective measures were taken to address repeat findings on financial and performance reporting as well as compliance with legislation.

Financial and performance management

44. Senior management did not implement proper records management over the maintenance of documents supporting financial and performance reports. Staff members did not fully understand the requirements of the financial and performance reporting frameworks, which contributed to the material findings on predetermined objectives and compliance with legislation and material adjustments that were required to the financial statements. Management was also slow to respond in addressing the recommendations of the audit committee and internal audit unit.

Other report

45. I draw attention to the following engagement that could potentially have an impact on the municipality's financial, performance and compliance matters. My opinion is not modified in respect of this engagement.

Investigation

46. The department of Cooperative Governance and Traditional Affairs is performing an investigation at the municipality covering the 2015-16 financial year. The investigation is based on allegations of maladministration, as well as fraud and corruption, and is still in progress at year-end.

Auditor-General

Pietermaritzburg

30 November 2016



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